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THE SECRETARY OF STATE

WASHINGTON

January 14, 1971

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MEMORANDUM FOR THE PRESIDENT

Subject: Military Sales Credit for Pakistan

We have looked into various ways to respond to the Pakistani request for credit to finance your recent arms offer, as requested in a January 5 memorandum from General Haig to Mr. Eliot.

The package you approved -- which included interceptor and bomber aircraft, armored personnel carriers and maritime patrol aircraft -- stipulated cash payment. It could cost Pakistan $40 million or more, depending on the models of equipment chosen. We have explained the decision to Congress and the Indians in terms of cash sales which rendered it less objectionable to them.

We believe it essential to hold the line on cash payment for these arms rather than allow credit financing. To do otherwise would undermine our credibility with the Indians and the Congress and our objective of continuing a restrictive military supply policy for South Asia.

Among the other alternatives we have examined are concessional prices, increased economic assistance and debt relief. We could not ask commercial manufacturers to offer concessional prices, and to sell defense materiel from inventories at less than its actual value would be prohibited by law. We advocate maintaining the highest level of economic assistance for Pakistan possible within available resources and justified by normal criteria. However, we would recommend against any additional economic aid or debt relief in order to enable Pakistan to purchase arms as this would contravene the essential purposes of such assistance.

The most practical alternative for partially easing the financial burden on Pakistan is to raise the level of its Foreign Military Sales (FMS) credit for purchases of non-lethal defense equipment. We propose to increase that level from $5 million to $10 million for the current fiscal year. We are looking at the possibility of doing the same for 1972, but this will depend on other priorities which cannot be weighed effectively at present. (Pakistan purchases from us an average of $20 million in defense materiel annually.) We would also plan to encourage the Pakistanis to stretch out the procurement of arms to reduce the burden of their cash payments in any one year.

While this approach will only partially meet Pakistan's need, by doubling our FMS credit for fiscal year 1971 we will be able to assure the Pakistanis that we have made a positive effort to be helpful. This reply has been coordinated with the Department of Defense and the Agency for International Development.

William P. Rogers